Cook, George Henry

Currency principles and currency taxation

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Currency Principles and Currency Taxation.

A PLAN

BY WHICH A LARGE REVENUE WOULD ACCRUE TO THE STATE,

NOT ONLY WITHOUT BEING FELT BY THE PUBLIC, BUT WITH POSITIVE BENEFIT TO THE COUNTRY AT LARGE.

THE PLAN IS SIMPLE AND PRACTICAL, AND WOULD OBVIATE MONETARY PANICS.

BY G. H. COOK.

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CURRENCY PRINCIPLES

AND

CURRENCY TAXATION.

THE following is a plan by which a large revenue would accrue to the State, not only without being felt by the public, but with positive benefit to the country at large. The plan is simple and practical, and would obviate monetary panics. The following considerations first claim attention. That the Bank of England, although so styled, is nothing more than an ordinary Joint Stock Bank, transacting the Government business, and possessing the delegated power of issuing legal-tender-notes, viz., those issued against a Government debt of £14,000,000, and those issued against bullion, the latter issue being increased or withdrawn from time to time in proportion to the amount of bullion the Bank may happen to possess.

The Irish, Scottish, and provincial Banks are also empowered to issue, together, £17,000,000 of notes, without any metallic basis.

These note issues constitute, with the current coin, the legal tender circulation of the country.

In order to show the serious imperfections and the real and apparent complexities of this system, and how really simple are the true principles of currency, and how free their operations from those periodic calamities now deemed an inseparable consequence, it is desirable to carry the mind back to the A B C of currency—Barter. It may be broadly stated that under this principle nothing could be more simple, direct, or complete, than the exchange

of goods against goods, apart from the inconveniences of proportioning values, and the cumbersome nature of the machinery employed; it was these inconveniences which the introduction of a circulating medium was intended to remove, for the purpose of adding *facilities not difficulties* in the exchange of goods. It is apparent that what was required was a *medium or mediums of recognised value, easily divisible and transferable, to take the place of goods as against goods, and to be co-extensive with the amount of goods under exchange;* in other words, it should be always so far obtainable that the want of it should never interfere with the exchange of goods. Goods, under barter, being exchangeable against goods, were alike the articles bought and sold, and the currency in which they were paid for, and thus the currency literally expanded and contracted with the amount of goods changing hands; in other words, *with the increase and diminution of trade;* and this principle is properly a fundamental one in any currency system, whether the area of sale be the globe or any fraction of it. Now the violation of this law in our monetary system leads directly to those monetary convulsions termed panics, in which individuals, as well as the country at large, suffer the most serious losses. Instead of *expanding and contracting with the legitimate requirements of trade*, our legal tender expands and contracts with the *accidental* presence or absence of the scarcest of all metals, gold, with a certain proportion of silver. For example—if, in consequence of a short harvest, £4,000,000 or £5,000,000 have to be sent out of the country to pay for corn, the law requires (and properly, so long as the present system lasts, as security against the Joint Stock Bank issuing), that notes to the like amount be withdrawn from circulation; and thus, because purchases take place

in one direction, whatever the extent and requirements of the trade of the country, *i.e.* exchange of goods, however sound that trade may be, the circulating medium requisite to conduct that trade is withdrawn. Trade is thus forced to contract itself, and this at the very time when in consequence of a bad harvest the country needs all the profit derivable from its industries as a set off, and when the multitude need the more employment to enable them to sustain the consequent high prices of food. This is the time when mills are closed, and the working man obtains the least employment, because traders are, or fear they may be, unable to obtain the legal tender in which their operations must be conducted, or which, if obtainable, is at such a transfer of their profits to the legal tender dealer that no margin is left for the benefit of those who incur the risk and the toil.

After having made gold the basis of issue, it is not even pretended to allocate and keep a stated amount, equal to the average legal tender requirements of trade. Such would be a costly process—a good system would not require it—but it would be a process less costly than the sacrifices entailed upon the trade and traders of the country, by the withdrawal of the gold and consequent withdrawal of the currency. At such periods it is only by paying exorbitant premiums — rates of interest—upon bills taken in the course of trade, or by forced sales of goods at ruinous sacrifices, to the great injury of others, that the trader is enabled to obtain this legal tender in which the law compels him to discharge his obligations, and thus withdraws from his use, handing over the profits due to his skill, labour, and industry to the mere legal tender dealer. In order more forcibly to show this hardship, it must be noted that bills are the recognised instruments in which the chief

trade of the country is transacted; goods sold are represented by them, and so far they represent and take the place of goods, the bill having the additional security of both the person who buys and the person who sells, the acceptor and the drawer, who are both liable to the full extent of their property for its payment, and, according to the degree of wealth these parties are supposed to possess, these bills become classified. In such times first-class bills, which may be considered practically a representative of goods, are only discountable at high premiums; legal tender becomes dearer, and more difficult to be obtained, according to the classification of the bills in the market. It sometimes happens that a trader having cash, goods, and bills sufficient for all his engagements, but unable to convert his values, as he could have done at any other time, into their legal representative, is obliged to stop payment along with those whose affairs are already desperate. He who most deserves a helping hand, and who only asks for a fair field, to foster whom, and, at any rate, to prevent any unfair and preventible obstacle being placed in his path, should be a matter of State policy. It may be said such cases are rare. Should they occur at all? How cruel are such failures: commercial disgrace—a family reared in luxury brought to comparative indigence. The struggle of life has to be again commenced at a disadvantage. Perhaps an establishment which it has been the care and work of years to organize and mature becomes altogether broken up, and the injury extends more or less throughout all the ramifications of those employed, both near and remote.

Unfortunately those most interested in the existing state of things are deemed the chief authorities upon our currency laws. Sir R. Peel, who took a long time to learn a principle, but who

vindicated it boldly and nobly when he saw it, was under the tutelage of one of this class, Jones Lloyd, a dealer in legal tender, who knew, whatever conviction he acted upon, that as the supply of an article was restricted its value became enhanced: by fixing upon gold, the scarcest of metals, as the basis of our currency, a *capital* joke was perpetrated. Dealers in money obtained the limitation that secured them high prices. Bankers, who hold tens of millions of legal tender as deposits of the public, are of course glad to obtain the highest price they can for its use. Again, by limiting the amount of legal tender, the money market is retained in comparatively a few hands, viz., bankers and large capitalists; and therefore, becomes easier acted upon, as it frequently is, to the enrichment of this class, and generally to the detriment of every other. Instead of the Government being master of the situation, it is positively controlled and held in leading strings by the great capitalists. It is for the State to break through these fetters and occupy its legitimate position, constituting the currency system of the country a State Department which would be second to none in its vital importance to the well-being of all. Are traders to be mulcted and ruined, and the great interests of the country damaged, to the sole advantage of a class dealing in legal tender? A class propounding the monstrous doctrine that panics such as described are inseparable from a sound monetary system — vide Jones Lloyd's monetary cycle—panics created by violating the fundamental law that legal tender should expand and contract with the requirements of trade. Is it not a disgrace to our civilization and the Government that no means have been taken to remedy such serious and glaring evils, such violations of common sense principles as are here noted? As the tree is

judged by its fruit, so the law under which such effects periodically occur stands self-condemned.

In proceeding to show, by working up from the 'A B C' of currency, how simply the *expansion* and *contraction* of a currency *can be made to square with the necessities of trade*, and, also, upon what principles a *premium* or *interest should become chargeable for the use of legal tender*, *under what circumstances this charge should be made*, *and who should receive it*, I will imagine a community, to which we will concede a well constituted government and the knowledge of printing, discussing and arranging the passing from barter to a system of currency in respect of which it had been determined that the government was the fittest source for its management and issue, as holding all things in trust for the people; and, again, that nothing could exceed the conveniences of paper and printing for divisibility of values, portability, and economy, with metal for small change only; and in respect of the most important point, viz., to make the notes themselves *certificates*, so to speak, of *some real value*, so that when a man gave up his goods, he should receive *as perfect a representative of the value he gave up*, *as if he had taken goods in exchange.* I will imagine it was proposed that notes should be issued against *gold;* that some objected because, in purchasing goods from foreigners gold had to be paid, and in a dearth of food one-third even of the legal tender might have to be withdrawn; a proportionate difficulty in the exchange of goods would arise, involving serious embarrassments, as debts could not then be legally paid or purchases made, excepting through this medium, loans of which would have to be obtained from those who had it, who would exact premiums or larger supplies of goods in consequence. This was considered

a serious matter, as, under Barter, goods themselves being exchangeable against goods, no interest or premium could be charged for legal tender in order to effect an exchange. To a man who had *no goods* to exchange, another man might loan a leg of mutton, to be returned in a month, with, say, a cooking of vegetables for interest; this would be a premium for *credit and risk*, it would not be paying a premium upon his own goods to obtain the legal medium of exchange (as is requisite with us to enable the purchaser to pay in legal tender, as, for example, when a first-class bill is discounted). I will imagine that it was eventually determined not to employ gold as a basis of note issues, as it was scarce and fluctuating, and was required for settlements with foreigners, but to employ *land*, *as it possessed all the essential requirements of immovability*, *of being ever valuable*, *and of a value far exceeding any amount of legal tender that could be required.* It was arranged, accordingly, that the government should issue notes equal to two-thirds the value of landed property pledged for this purpose with the State, and up to any amount required, and it was proposed to constitute those persons who might thus obtain legal tender agents for its distribution as between the government and the people, 2 per cent. to be paid *to the State* on issue, to *meet the expenses* of the new system, the agents being legally empowered to charge a further ½ per cent. for their trouble; 2½ per cent. becoming thus the legally fixed minimum rate of interest, a payment not objected to, being for the common good, charges beyond this minimum being at the discretion of borrower and lender, according to the degrees of *credit and risk.* Agents to be allowed to repay the treasury from time to time any amount of notes that might not be required in consequence of a diminution in the

demand, such notes to be always re-obtainable up to the limit of the security deposited. Having thus illustrated the natural objects and qualities of a currency, I beg to submit that here is a currency representing the most solid of all values, and one *contracting and expanding* with the *requirements of trade;* expanding on the one hand so long as the agents (bankers) could beneficially employ their currency, which, as soon as the demand abated, would be proportionably contracted, and replaced with the treasury, in order to save the 2 per cent., the public, having a still larger per centage to pay, would not borrow unless an advantage was apparent; nor would bankers advance unless the securities were valid; and people having property at stake most count their risks. The natural law of self-interest would be an immediate check on over issue. Further checks would exist in the character and prudence of bankers, and in the fact that if imprudent advances led to a stoppage, the estate pledged to the Crown would be sold, and legal tender to the amount issued against it withdrawn and cancelled. Here would be no panics and national losses, such as I have depicted, caused by the abstraction of our currency: no run-upon-the-bank-for-gold-panics. Apart from small change, and the mere dealing in gold as a commodity, no one runs to turn notes into gold until it is feared that the gold *forming the security of the note* is about vanishing. Here land of approved value with a large margin would be mortgaged to the State, and cover the whole issue—a security that *could not run away.* What system could be more complete? The land-pound-note, as I shall term it for distinction, would take the place of the gold pound-note as the legal measure for calculating and arranging relative values between man and man, throughout the land; and, therefore, be as equitable

for one as for another. The gold-note and the land-note would differ in this respect, viz., that the former, being identical with gold at an arbitrarily fixed price, is for this reason alone, considered worth the amount of the gold it represents; although this may not always prove so in fact, as, in the event of a run for gold upon the bank, if any portion of the £14,000,000 of notes issued against the Government debt were presented along with the amount of notes issued against gold, the *amount of the latter* would *only* be obtainable in gold; and this, independently of the country issues, illustrating the deceptive pretentiousness of bullionists, who thus sport with the credulity and interests of the country under most solemn assertions that safety is only to be found in the vicinity of a volcano, which may, at any time, explode. In consequence of the *market* value of gold being fixed in our currency, when the market price rises beyond this, our gold and currency depart together, as far as the shipments of the former may extend. The fact of gold being thus subject to foreign deportation, nothing could be more false in principle than to have constituted it the basis of a domestic currency. The land pound note separated from gold as a basis, gold would revert to its *market* value, and if it rose in value, and required more land pound-notes to purchase an oz. than of the notes which were identical with gold, bullionists might, in order to create alarm, call that a depreciation of the former, but it would be no more a depreciation than if any other commodity rose in value and required more notes to purchase a certain quantity. If it now required more gold than formerly to purchase a cwt. of sugar, it might equally be said that the gold was depreciated. The rise and fall of prices are properly the appreciation and depreciation of commodities relative to each other, not of the currency in which

their values are calculated and denoted. As regards foreign trade, what we buy must be paid for, either in shipments of tin, copper, manufactures, gold, &c.; when gold, the foreigner has always taken it simply as bullion, at the market price—not as money. It would continue, in this respect, in the same position, and would be purchaseable by those who required it, of bullion merchants. Every commodity in the country, having its value measured in these notes, gold would, of course, be purchased in them in the relative value that these commodities then bore to gold, and the notes would be immediately exchangeable back again into a similar proportion of commodities. Bankers would, generally, hold a considerable quantity of gold both as bullion dealers, and for advances, which would be made at the minimum rate.

It is, I think, clearly demonstrated that the State should alone be the fountain of issue, that *payments for the use of legal tender* properly consist of, first, those belonging to the state, connected with the *expenses of issue*, in connection with which I have suggested a payment of a fractional per centage to agents for the distribution, as between the State and the public; or, perhaps, in consideration of the general advantages of such a position, this might not be required; and again—the State, having the power of taxation, might elect to raise revenue by *a tax* upon legal tender. Secondly—those charges beyond the minimum rate which agents may make for degrees of *risk and credit*, as between themselves and the public, which the State would have nothing to do with.

The Government might also elect to issue notes against deposits of Bullion and State-securities, and to make advances not only for Banking purposes, but to *other* applicants, upon an extra charge of 1 per cent. When the magnitude of the aggregation of small sums is considered, it can be easily perceived how a large revenue might be obtained, if this department were organised to suit all classes upon the above limit as to securities, with some suitable limit as to time and amount.

If the Government issued the whole currency of the country in the manner I have proposed, and made a charge, say $2\frac{3}{4}$ per cent. per annum for revenue generally, without separating the exact amount of expenses belonging to the currency department, allowing bankers to charge say $\frac{1}{8}$ per cent. for 'distribution'—this would fix the minimum rate of interest at $2\frac{7}{8}$ per cent. The country would gain a welcome addition to its revenue on an issue of 50 millions, equal to £1,375,000, which instead of being felt as a tax would be a positive relief from taxation at this moment, as between $2\frac{7}{8}$ per cent. and the minimum bank rate of 5 and 6 per cent. The trader would perceive that whatever he paid under this apportionment of the rights, as between the State and the people, and as between the latter to each other, if his industry was taxed through the currency, whatever he paid in discounts, less charges for risk, credit, and agency, went to the state as revenue, and that mere money-lenders were no longer permitted, through a vicious law, to deprive him of the fair profits due to his skill and industry; that industry which Lord Palmerston justly states supports the war, now held in heavy check or stopped, would be at once set free, and with a fixed minimum rate of interest its calculations and operations would be *less speculative* and placed upon a *surer basis.* The importance of all this is as a mountain to a mole-hill, compared to what interested and other alarmists would predicate of over speculation, which has always had its occasional bursts, and which, independently of the natural checks I have referred to, carries, and must be left to, its own cure.

Money spent in the country generally adds to its wealth; although individuals may lose, money only changes hands, but in the process minerals have been raised, buildings erected, railroads made, labour fed. I will parenthetically remark, that under any other circumstances I should have advocated the broad principle that the raw material of our manufactures, as well as everything that directly or indirectly forms an element of first cost, *including the currency* in which the industry of the country is represented, should be as free from impost as possible; a difference in first cost will make and keep a market or lose it, and if the latter, the particular industry concerned, however important in extent, is affected proportionably. Taxation should never cut wood from the root, such a process impairs growth and diminishes supply; by cutting from matured boughs, taking from results as a property tax does, a larger and better supply is easier obtained, without injury to what is alike the root of nourishment and the fertile source of a new growth.

I have now a word to say about the method of *carrying out* a reform of the currency. Great opposition would no doubt be encountered from bankers and money dealers, who would exert the great power placed in their hands under the existing system to raise a panic, in order to defeat such a purpose. The safest, most legitimate, and effectual course, under these circumstances, would be to take a leaf out of the Free Trade movement, and *educate the people in the A, B, C of currency* by lectures, public discussion, and the press. This would be the more necessary as such general ignorance and sensitiveness prevail upon the subject of currency: it is considered by the multitude too complex for them even to attempt to think about, and the greater the ignorance,

the greater sensitiveness to alarm, and hence the greater necessity to prevent them being led away by any specious cry arising out of the solemn sophistries of bullionists. A Government favourable to a change could largely and very properly stimulate public attention, by offering premiums for the best treatises upon the subject, by inviting chambers of commerce or analogous bodies to consider and report upon the same. A congress of members from each body might finally record by votes as to the best system, excluding, in all cases, bankers and money-dealers from voting, although not from conference. A parliamentary committee might also be appointed. Thus, by the safest and most legitimate means, inquiry — conducted by those in the land best able to judge—the measure would obtain the confidence of the country, and also, in consequence of its advantages being understood, such a popularity, that the government would be able to set at defiance any opposition that might arise, and all attempts at deluding the people would be rendered unavailable, either to prevent its passing or defeat its working; and meanwhile, both in order to pave the way to a new system and for the immediate relief of industry, let the Government make advances of notes, in the same manner that the 14,000,000 is now issued—viz., upon the credit of the country; (the Government standing as trustee to the people, the people's income is about £5,000,000 per annum.) The profit upon such issues would go to the State.

We are fast drifting to this; it is already asked is not 'the credit of the Government' as good for £20,000,000 as for £14,000,000, and for £50,000,000 as for £20,000,000? I prefer, however, that the issues should be based upon specially allocated securities, as in the event of political convulsions a more positive security would be felt, and a better

check would be workable over the system. By such advances being now made and gradually extended, the eventual transition into such a system as I have suggested would become insensibly easy, as it would be a transition from notes issued upon the credit of Government to notes issued against specially allocated securities; as the latter came into existence the others could be gradually withdrawn. Again, as the State issues increased and the advantages became apparent, the prejudice in favour of gold as a basis of currency would the more readily subside; with a larger issue of State paper the convertibility of the note into gold must to some extent, at any rate, cease, or otherwise the bullionists, before the people sufficiently understood the subject, might create a run for gold, by way of fanning popular belief into the necessity of convertibility and the horrors of inconvertibility!

The subject of currency is second to none in its vital importance to the industrial welfare of the country: there is no subject generally so little understood. Public attention is, however, aroused; and when once the people are instructed, and public opinion can be brought to bear, the fiat of parliament will be able to constitute the Government master of the situation, and bring capitalists, from being what they are—masters of every monarch in Europe,—into a legitimate and wholesome subordination.

FINIS.

END OF TITLE